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PROGRESS REPORT FOR 1994 ON SPECIFIC UNIDO ACTIVITIES

Addendum

Industrial investment promotion: Measures to improve and strengthen the UNIDO network of Investment Promotion Service offices

Report by the Director-General

Summary

Discusses the current status of the Investment Promotion Service office network and describes future developments with regard to the expanding number of the offices, personnel policies, and plans for strengthening the role of the offices.

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Introduction

1. The present document supplements the information provided in section G, chapter VI of document GC.6/5-IDB.13/12 and describes ways and means of enhancing the efficiency, effectiveness and impact of the industrial investment programme, and more specifically the Investment Promotion Service (IPS) offices.

I. THE INVESTMENT PROMOTION SERVICE OFFICES

2. The General Conference, in its resolution GC.3/Res.19, approved guidelines for the functioning of the Investment Promotion Services. These guidelines specify two types of IPS offices: those in industrialized countries where their mandate is to "devote themselves exclusively to promoting industrial investment from their host countries to developing countries", and those in "developing and indicative planning figure (IPF)-recipient countries" where their mandate is to "promote industrial investment to other developing countries, as well as industrial investment from abroad to the host country". In other words, IPS offices in capital- and technology-exporting industrialized countries promote the outward flow of investment capital, technology and management know-how for industrial investment projects in developing countries, while IPS offices in developing countries promote both the inward and outward flow of investment, technology and know-how.

3. In 1989, only two developing/IPF-recipient countries, namely, Poland and the Republic of Korea, were participants of the UNIDO IPS network, but in recent years more and more developing countries as well as countries with economies in transition, have turned towards UNIDO for assistance in attracting foreign direct investment and for setting up offices in their countries to join the UNIDO network. The reason is that, over the years, UNIDO has developed effective methodologies and tools for pre-investment studies and promotion of industrial projects. Good experience and capabilities have also been built up for technical

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cooperation at any stage of an investment project cycle in many important industrial sectors. The accumulated experience and expertise are particularly relevant for industrial investment promotion and investment project implementation in the small and medium enterprise sector, where UNIDO assistance is most needed and appreciated in the developing countries. Moreover, the increasing use of electronic data-processing techniques and electronic mail means that UNIDO can adopt a unified approach and methodology and provide a speedy response, within the network, to the needs of developing countries in industrial investment promotion and investment project implementation. The IPS network has therefore become a very powerful tool whose usefulness and coverage should be extended to all interested countries.

4. Both arms of the network - IPS offices in industrialized countries and those in developing countries - should be strengthened and expanded as they are interdependent and complementary: the usefulness of one is enhanced by the strength of the other. The sixteen outstanding requests for IPS offices (namely, from Algeria, Bahrain, Egypt, India, Islamic Republic of Iran, Lithuania, Pakistan, Portugal, Romania, Saudi Arabia, South Africa, Spain, Tunisia, Turkey, Ukraine and Uzbekistan) and a few other enquiries indicate that UNIDO will be able to achieve a balanced development of a potentially powerful and effective network. However, a flexible response is needed on the part of UNIDO in order to meet the requirements and particular circumstances of each host country. With this in view, the measures described below are being introduced or contemplated.

II. AGREEMENTS WITH HOST GOVERNMENTS

5. A new draft standard agreement between UNIDO and the host Governments is being developed. It will envisage an open-ended duration to avoid frequent negotiations and paper work and to lend a longer term perspective to the offices' work programmes. With the same end in view, three-year project budgets are envisaged, though contributions could be paid annually.

III. PERSONNEL ARRANGEMENTS FOR THE INVESTMENT PROMOTION SERVICE OFFICES

6. Traditionally, IPS offices are staffed by nationals of the host countries; the nationals in the Professional-level category are appointed under the 200 series staff rules as UNIDO experts, as foreseen by the guidelines contained in resolution GC.3/Res.19. While this arrangement does not pose any problems for those offices located in the industrialized countries where Professional-level salaries are comparable, the expansion of the network into the developing and other IPF-recipient countries necessitates some adjustment and a flexible approach to this aspect. For many such countries, there is a wide gap between the UNIDO salary scale for international experts as compared with civil service or even private industry salary scales. For that reason, many developing country host Governments have requested UNIDO to apply, for Professional-level staff of IPS offices in their countries, the National Officer salary scale established for each duty station in the developing countries by the United Nations Development Programme (UNDP). This scale is generally in line with those in the public and private sectors and offers the best prevailing conditions in the locality for nationals carrying out functions of the same level. The adoption of the National Officer salary scale, which is widely used by UNDP and many other United Nations organizations for locally recruited professional staff would greatly reduce the budgets of IPS offices in the developing and IPF-recipient countries and make them more affordable to the host Governments. Where the National Officer scale is inadequate, the 200 series expert scale might be applied with the approval of the host Government. Irrespective of which salary scale is used, the staff of IPS offices would continue to be supervised by UNIDO Headquarters who would also continue to be responsible for negotiations with host Governments.

IV. PROGRAMME FUNDING FOR THE INVESTMENT PROMOTION SERVICE OFFICE NETWORK SUPPORT

7. Policy-making organs have repeatedly requested the Director-General of UNIDO to seek ways of enhancing the efficiency, effectiveness and the impact of the Investment Promotion Programme. The IPS office network has demonstrated its usefulness, which stems from the fact that it is run as a UNIDO network and not as individual offices hosted by individual Governments. A medium-term programme is called for to provide continuing support to the network, to expand and to develop it to its fullest potential in line with the general policy of UNIDO towards greater decentralization and enhanced field presence. In this context, the feasibility and appropriateness of combining general UNIDO field office functions with specific IPS functions will also be explored. A five-year support programme for the IPS office network, with particular emphasis on improving and strengthening IPS offices and initiating new ones in the developing countries and in the countries with economies in transition, is being formulated for submission to the Industrial Development Fund and trust fund donors. Such programme funding, when available, will supplement host governments' contributions for IPS offices. It is hoped that Member States will provide the necessary financial contributions in accordance with paragraphs 2 (f) and 4 of General Conference resolution GC.5/Res.7 dated 9 December 1993.

V. ENVISAGED FUTURE DEVELOPMENTS

8. In order to maintain the quality and relevance of services provided by IPS offices to industrial enterprises in the host country as well as in foreign countries, a scheme for charging nominal fees for specific services is being formulated. The services will include, for example, provision of information and data on industrial investment in a given developing country, identification of specific investment opportunities, assistance in negotiations between two partners, and training workshops in UNIDO methodology for pre-investment studies. The scheme will be introduced on a case-by-case basis, taking into account the particular circumstances of each office.

9. There are indications that private companies or groups in some countries may be willing to finance or co-finance an IPS office. In order to ensure that the objectives and functions of the network are compatible with the UNIDO Constitution and mandates, such offers of financing from non-governmental sources will be accepted by UNIDO only with the full support of and through the host Government.

VI. ACTION REQUIRED OF THE BOARD

10. The Board may wish to take note of the foregoing steps proposed to be undertaken to improve and strengthen the UNIDO network of IPS offices.